

REASON FIVE

By Kimball Thomson

Impact Finance

Utah's Legacy of Financial Services Innovation and Influence

PICTURED (L TO R):
SCOTT ANDERSON, ZIONS BANK;
U.S. SENATOR ORRIN HATCH;
H. DON NORTON, FAR WEST BANK;
HOWARD HEADLEE, UTAH BANKERS ASSOCIATION



UTAH'S FINANCIAL SERVICES INDUSTRY builds on a storied legacy of innovation and influence within national and international finance. Utah is at the center of the debate on financial trends and issues of global scope and significance, such as the evolution of the industrial bank charter and the societal role and responsibilities of banks, credit unions and other financial institutions.

"It seems there is really no matter of broad importance in which Utah—or someone from Utah—isn't in the center of it," says Howard Headlee, president of the Utah Bankers Association. "Whether it's in the private sector or the public sector, Utahns are playing a key role in the debate and in its outcome."

PUBLIC AND PRIVATE SECTOR LEADERSHIP

Utah public servants at the state and federal level serve in pivotal positions and wield great influence.

Senator Robert Bennett, the junior U.S. Senator from Utah, is currently chairman of the Senate Banking Subcommittee on Financial Institutions and vice chairman of the Joint Economic Committee of Congress. Bennett, past chairman of the Joint Economic Committee, also helps drive the financial agenda for the Senate as chief deputy minority whip.

The senior senator from the state, Orrin Hatch, is the ranking member for the majority on the Senate Finance Committee, and is slated to become chairman of that committee after the next election cycle. Hatch is also past chairman of the Judiciary Committee and currently serves as the committee's ranking Republican member.

Jim Matheson, congressman from Utah's Second District, plays a prominent role as a member of the minority on the Financial Services Committee.

Utah also offers top national financial services leadership in the public sector. On September 27, 2005, Harris Simmons, chairman of Salt Lake City-

based Zions First National Bank, was elected chairman of the American Bankers Association (ABA), the largest banking trade association in the United States. In recent years, Zions Bank has consistently ranked among the nation's leading regional banks.

On the state government level, Utah is currently the epicenter of the national debate on whether credit unions should pay any form of taxes, or whether all types of credit unions should keep their tax-free status. "The past few years, everyone on both sides of the debate on credit union taxation has been watching what is happening in Utah and the arguments both sides furthered," says Scott Simpson, president of the Utah Association of Credit Unions. In 2004, the Utah State House of Representatives passed the Joint Resolution Related to Financial Institutions, which moved the debate to the U.S. Congress.

Utah is also at the heart of the debate about charters for special-purpose industrial banks (also known as industrial loan companies, or ILCs),

and their role in the banking industry and the economy. Ed Leary, commissioner of Financial Institutions for the State of Utah, is a frequent invited speaker around the country and has been called to testify before Congress on multiple occasions about Utah's world-leading industrial bank industry.

PROFILE OF A GLOBAL LEADER: UTAH INDUSTRIAL BANKING

Utah's global leadership in the industrial bank industry was the result of pioneering legislation guided by significant collaboration between leaders in the state's public and private sectors.

Industrial banks are special purpose financial institutions currently found only in Utah and four other states: California, Colorado, Minnesota and Nevada. Like traditional banks, industrial banks can offer loans and checking accounts, issue credit cards and take deposits, although they generally do not operate out of branch offices.

Industrial banks have a number

of limitations, such as not being allowed to accept deposits if total assets exceed \$100 million. To qualify for a Utah industrial bank charter, an institution must be insured by the Federal Deposit Insurance Corporation (FDIC) and meet other stringent requirements and limitations.

Industrial banks have existed in some form for about 100 years, but have substantially increased in size and sophistication during the past several decades. Companies in a variety of industries—such as credit card companies, brokerage firms, automobile manufacturers and large retailers—find industrial banks an effective and efficient way to provide a number of specialized services to their existing and prospective clients.

The Utah industrial bank industry grew rapidly from the late 1980s through the early 1990s, helped by the state's low cost of operation, an abundant skilled labor force, a business-friendly legislature and regulatory system, a fairly simple Consumer Credit Code and no anti-usury law.

At present, there are 34 industrial banks with Utah charters located across a variety of industries. For example, Utah's industrial banks include securities firms such as American Express Centurion Bank, Goldman Sachs, Merrill Lynch, Morgan Stanley and UBS; automotive companies, including Bavarian Motor Works (BMW), Daimler Chrysler, General Motors Acceptance Corporation, Volkswagen and Volvo; large retailers such as Target Stores; GE Capital Financial Services; and transportation and fuel companies such as Wright Express Financial Services and Transportation Alliance Bank, a subsidiary of the Utah-based fuel and travel plaza company Flying



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J. In October 2005, SALLIE MAE was approved for a Utah charter.

As of November 2005, there were more than \$115 billion under management at Utah industrial banks, which according to Leary constitutes about two-thirds of all U.S. industrial bank assets under management. The nation's largest industrial bank, Utah-based Merrill Lynch, has approximately \$65 billion in assets. In addition, 10 Utah ILCs have more than \$1 billion under management each.

WHY UTAH?

Leary attributes much of the growth of the industrial banking industry in Utah to prudent legislation, regulation and oversight. "We have worked long and diligently to create a system that engenders confidence among the companies involved and the government regulators," he says.

For the past 20 years, Utah industrial banks have been regulated jointly by the Utah Department of Financial Institutions and the FDIC. "Industrial banks are as closely regu-

lated as any other commercial banks in the country," says Leary. "We have established a close working relationship with the FDIC to ensure that industrial banks are appropriately regulated to protect the public without subjecting the companies to onerous and unproductive legislation and regulation."

Generally, Utah industrial banks have a national or global scope, but operate from a single location. Because Utah industrial banks operate under the laws of the state's charter, they can export their services and products to customers in locations throughout the world under the auspices of a single, workable body of law.

Some of the same factors that contributed to Utah's rise to prominence in industrial banking are now solidifying the state's undisputed national ILC industry leadership. "Many ILC executives like the Utah charter and feel this is the best place from which to operate an industrial bank," says Leary. According to recent research performed by the Utah

Department of Financial Institutions among executives from current and prospective industrial banks in the state, the leading reasons industrial banks choose Utah include:

- A positive environment for business, created by the Utah Legislature and the Governor's office. "Leaders are very comfortable with the business-savvy and business-friendly approach of the Huntsman administration," says Leary.

- Confidence in the "developed and capable" regulatory structure from the Utah Dept. of Financial Institutions and the FDIC.

- The nation's leading cluster of industrial banks. "There is a tendency for industry leaders to be surrounded by other similar companies," says Leary.

- The state's extensive and successful experience with limited purpose banks.

- Fees which are lower than the national bank equivalent.

- A plentiful and able workforce drawn from Utah's young, well-educated populace. "This is reinforced by the specific bank experience acquired by many who have worked in this and related types of financial services firms," says Leary.

- The excellent quality of life in Utah. "After people have lived in the state, they tend to be highly reluctant to leave," says Leary.

- A cost of living below the national average.

- A much shorter process from inception to approval. According to Leary, "Industrial banks achieve a faster time to market than in other places—getting the charter understood, processed and approved."

- Excellent telecommunications facilities.

- Travel accessibility. "They like the fact that Salt Lake City is a hub to many other financial capitals," says Leary.

- The Utah Consumer Credit Code, which is as flexible as any in the nation.

- The ability of a state-chartered, federally insured depository institution to export Utah's favorable interest rates, fees and structure to other places—including the provision of no interest rate cap.

ONGOING BENEFITS

It would be difficult to overestimate the benefits of the industrial banks and other financial services organizations in Utah. The industry provides thousands of quality financial and customer service jobs, including executive level and board positions. The industry also creates significant opportunities for data processors and service providers, such as attorneys, consultants and commercial lenders.

In addition, the Community Reinvestment Act funnels one percent of the assets under management in banks to community development in Utah. "It is difficult to place a value on the tremendous benefit flowing to the state from the financial services industry, from jobs to low-cost housing to equity investment," says Leary.

"It's something we need to work to maintain and increase."

Leaders in the state's private sector are equally committed to sustaining Utah's business-friendly financial services environment. "If we didn't have the effective legislation and the sound, supportive business and regulatory environment for this industry, the business and all its advantages would go elsewhere," says Scott Anderson, CEO of Zions Bank. "Business and government leaders here in Utah are fully committed to preserving this environment now and in the future."

For more information on Utah's industrial banking and other financial services institutions, visit the Utah Department of Financial Institutions Web site, <http://www.dfi.utah.gov>.



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